

POLICY BASICS

The Child Tax Credit

“ Enacted in 1997 and expanded with bipartisan support since 2001, the Child Tax Credit helps working families offset the cost of raising children.”

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

The Center on Budget and Policy Priorities
820 First Street, NE, Suite 510
Washington, DC 20002
Ph: 202-408-1080
Fax: 202-408-1056
center@cbpp.org
<http://www.cbpp.org>

Updated December 4, 2014

Enacted in 1997 and expanded with bipartisan support since 2001, the Child Tax Credit (CTC) helps working families offset the cost of raising children. It is worth up to \$1,000 per eligible child (under age 17 at the end of the tax year).

Taxpayers eligible for the credit subtract it from the total amount of federal income taxes they would otherwise owe. For example, if a couple with two qualifying children would owe \$4,600 in taxes without the credit, they would owe \$2,600 in taxes with it, because the credit would reduce their tax bill by \$1,000 for each child.

Helping Low-Income Working Families

The CTC includes a refundable component, the Additional Child Tax Credit. This means that if the value of the CTC exceeds the amount of federal income tax a family owes, the family may receive part or all of the difference in the form of a refund check. As a result, many working families can still benefit from the credit even if their incomes are so low that they owe little or no federal income tax in a given year. These families still pay payroll taxes, however.

When filing taxes for 2014 (due in April 2015), working families can receive a refund equal to 15 percent of their earnings above \$3,000, up to the credit's full \$1,000-per-child value. For example, a single mother with two children who earns \$14,000 in 2014 could receive 15 percent of \$11,000, or \$1,650, as a refund.

This refundability feature is important for low-income working families, who otherwise wouldn't receive the tax benefits available to higher-income families to help offset the cost of raising children.

Reducing Poverty and Expanding Children's Opportunities

The value of the CTC increases with a household's earnings, up to the \$1,000-per-child limit. A family that earns less than \$3,000 is ineligible for the credit, however, and a family with two children that earns between \$3,000 and \$16,330 receives only a partial credit.

Despite these shortcomings, the CTC is a powerful weapon against poverty. In 2013 it protected approximately 3.1 million people from poverty, including about 1.7 million children, and reduced the severity of poverty for another 13.7 million people, including 6.8 million children. In combination with the Earned Income Tax Credit (EITC), it lifts even more families with children out of poverty (see figure). Many of these low-income families are ineligible for other tax-based assistance for children, like the Child and Dependent Care Tax Credit, which is not refundable.

Also, research suggests that boosting working families' incomes can expand opportunities for children, such as by improving school

performance. Lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood, research has found.

Because higher-income households are less in need of help meeting the cost of raising children, couples with two children and incomes above \$110,000 (\$75,000 for single or head-of-household filers) receive a smaller CTC, and those with incomes above \$150,000 (\$115,000 for singles and household heads) receive no CTC.

Strengthening the Child Credit

The 2001 and 2003 Bush tax cuts expanded the Child Tax Credit from \$500 per child to \$1,000 and made it partly refundable.

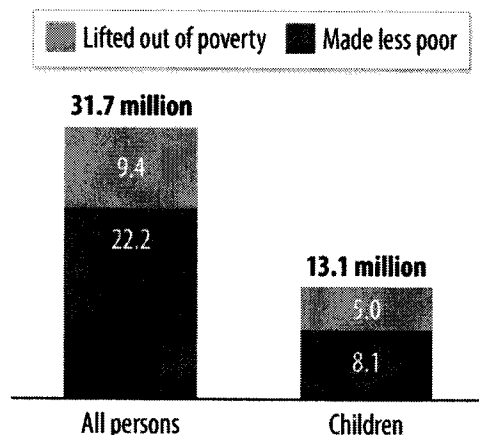
The 2009 Recovery Act further strengthened the CTC to reach many more low-income working families and boosted the credit for many families receiving only a partial credit. CBPP analysis of Census data shows that these changes lifted 1.1 million people above the poverty line in 2013, under a poverty measure that counts not only cash income but also taxes and government benefits.

The American Taxpayer Relief Act, enacted in January 2013, made the 2001 and 2003 expansions permanent but extended the 2009 provisions only through 2017.

For more on the CTC and EITC, see *"Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds."*

Earned Income Tax Credit and Child Tax Credit Have Powerful Antipoverty Impact

Persons lifted out of poverty or made less poor (using Supplemental Poverty Measure) by EITC and CTC, 2013



Figures may not add due to rounding.

Note: Unlike the Census Bureau's official poverty measure, the SPM counts the effect of government benefit programs and tax credits.

Source: CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

Center on Budget and Policy Priorities | cbpp.org

“ In 2013 [the Child Tax Credit] protected approximately 3.1 million people from poverty, including about 1.7 million children.”